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INTRODUCTION

In accordance with the City Auditor's 1991-92 Audit Workplan, we performed a review of the City of San Jose's accounts receivable collection process. Specifically, we reviewed the San Jose Fire Department's accounts receivable collection process. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

SCOPE AND METHODOLOGY

This report is the first report covering the City's accounts receivable collection process. This audit covers only the San Jose Fire Department's (Department) accounts receivable collection process.

Our audit included a limited test and analysis of the Department's records, files, and documents relating to fire safety and hazardous materials permits and inspections. Generally, our analyses covered inspection performance level, cost recovery, and inspection cycles for the period from 1988 through 1991.

We also analyzed various data pertaining to the computerized and manual billings. Furthermore, we reviewed records and procedures relating to both types of billings.

Finally, we discussed and clarified with the Department's staff and management personnel the various information we obtained through prior interviews and the review and analysis of program records, files, and documents.

BACKGROUND

The responsibility for the City of San Jose's accounts receivable collection function resides within the Treasury Division of the Finance Department. Appendix B shows the chart of organization.

The Accounts Receivable Section (ARS) of the Treasury Division performs the accounts receivable collection function. The main tasks of the ARS include the following:

1. Receiving and processing payments on all City department-issued invoices;
2. Collecting delinquent receivables through small claims actions and referring delinquent accounts to the City Attorney's Office or collection agencies; and
3. Administering collection of Utility Users Tax, Conveyance Tax, Transient Occupancy Tax, various franchise fees, solid waste disposal fees, and miscellaneous contract payments.

The Treasury Division collects two major types of receivables: (1) invoiced receivables and (2) non-invoiced receivables. As the names imply, invoiced receivables require an invoice to be prepared and mailed to the recipient of City services, whereas no invoice is prepared for non-invoiced receivables. The following are the eight major types of invoices the City prepares and collects:

1. General City invoices
2. Airport invoices
3. Business license tax invoices
4. Municipal water bills
5. Sewer/storm drain invoices

6. Residential occupancy permit invoices
7. Fire permit/inspection invoices
8. Regulatory permit invoices

Computer Systems Involved In The Collection Process

The City uses three computer systems to process departmental invoice input data. The City's Wang computer is used to process the general City invoices through the Financial Management System (FMS). The City uses its VAX computer to process invoices for the Airport, sewer service, general business license taxes, regulatory permit renewal notices, fire permit and inspection fees, and permits of occupancy. The City processes municipal water bills through the Municipal Water System's own minicomputer. Appendix C describes the various types of invoices and the computer systems through which they are processed.

Finance And Other City Department Procedures

The City's billing system is a combination of centralized and decentralized processes.

The centralized process requires originating departments to enter invoice data into the City's Wang or VAX system and the Information Systems Department (ISD) to print the invoices. The departments then pick up and mail the invoices. When a payment is made by mail or over the counter, ARS receives and processes the payment, remits it to the cashier in the Banking Section of Treasury, and records the payment in the on-line accounts receivable file.

As a part of the decentralized process, City departments receive and process two types of payments: (1) water utility payments which the Municipal Water System (under the Public Works Department) receives and (2) fire permit fees, including fire safety and hazardous materials inspection fees, which the Fire Department receives. Most of the payments for the Fire Department permit and inspection fees are received through a bank lockbox system.

Our report on the San Jose Fire Department's accounts receivable system is the first of several reports we intend to issue as part of our audit of the City-wide accounts receivable collection process.

FINDING I

INCREASED FIRE DEPARTMENT INSPECTIONS WOULD GENERATE AN ADDITIONAL \$330,000 IN ANNUAL REVENUES AND REDUCE THE THREAT OF FIRES OR OTHER LIFE-THREATENING INCIDENTS

As part of the City's fire safety permit process, the San Jose Municipal Code gives the Fire Chief discretionary authority to conduct fire safety and hazardous materials inspections. According to the Municipal Code, these inspections are designed to

- Enforce fire prevention laws and ordinances for the safeguarding of life and property from fire or other hazardous conditions;
- Ascertain and correct conditions which would reasonably tend to cause fire or contribute to its spread; and
- Abate any condition that constitutes an immediate hazard to life by reason of fire, explosion, or panic; potential fire, explosion, or panic; or other hazardous conditions.

About 50 percent of the time inspections result in the inspectors identifying a hazardous condition that could cause fire, explosion, accident, or environmental damage. Additionally, these permits and inspections generate about \$2,000,000 per year in revenues for the City's General Fund. Despite a marked increase in the number of inspections from 1988 to 1990, our review of the San Jose Fire Department's (Department) fire safety and hazardous materials inspections revealed that in 1991

- The Department did not complete the inspection of 42 percent of the assigned facilities for fire safety and 45 percent of the assigned facilities for hazardous materials within the annual inspection period.
- Instead of an annual inspection cycle, the Department inspected assigned facilities for fire safety on a 21-month cycle and assigned facilities for hazardous materials on a 22-month cycle.
- Fire safety inspectors spent only 36 percent and hazardous material inspectors spent only 10 percent of their total present hours actually doing annual inspections.

As a result, in 1991 potentially hazardous conditions went undetected for an additional nine or ten months and the City's General Fund did not receive about \$330,000 in inspection fee revenues. By increasing the percent of fire safety and hazardous materials inspectors' time actually spent doing inspections from 36 and 10 percent of present hours to 61 and 18 percent respectively, the Department could inspect all assigned facilities on an annual basis and increase General Fund revenues by about \$330,000 per year.

Municipal Code And/Or San Jose Uniform Fire Code

The Chief of the Fire Department (Fire Chief) is responsible for the administration and enforcement of the San Jose Uniform Fire Code (Fire Code). To assist the Fire Chief in the administration and enforcement of the fire prevention provisions of the Fire Code, a Fire Prevention Bureau (Bureau) was established within the Department. A major function of the Bureau is to conduct fire safety and hazardous materials inspections. Section 2.201 of the Fire Code states in part *“(a) The fire prevention bureau shall inspect, as often as may be necessary, all buildings and premises, . . . for the purpose of ascertaining and causing to be corrected any conditions which would reasonably tend to cause fire*

or contribute to its spread . . .” Under Section 17.12.010.C of the San Jose Municipal Code (SJMC), the Fire Chief is also empowered to “*assign other members of the fire department as inspectors as shall be necessary.*” However, the duty of the Fire Chief to conduct inspections is discretionary. SJMC Sec. 17.12.060 provides “*. . . All inspections specified herein shall be at the discretion of the chief and nothing in the Uniform Fire Code or in the San Jose Municipal Code shall be construed as requiring the city to conduct any such inspection nor shall any actual inspection made imply a duty to conduct any other inspection.*”

Any person or business is prohibited from operating without a valid fire permit if the Fire Code requires such a permit. Section 4.101 of the Fire Code states that “*It shall be unlawful for any person, firm or corporation to use a building or premises or engage in any activities . . . without first having a valid permit.*” Furthermore, Fire Code Section 4.104 requires that “*Before a permit is issued, the chief or his authorized representative may inspect and approve the receptacles, vehicles, buildings, structures, devices, premises, storage spaces or areas to be used.*”

A fee may or may not be required for a permit and/or inspection. However, if a fee is required, Section 4.108 of the Fire Code provides “*Failure to pay any fee . . . within the time period specified . . . shall render such permit null and void.*” The members of the Bureau can enforce this provision because they have the powers of a police officer in performing their duties. They can cite a person, firm, or corporation operating without the required valid permit.

Appendices D and E describe the processes for fire safety and hazardous materials inspections and billing.

Results Of Fire Safety And Hazardous Materials Inspections

From 1988 to 1991, the total number of facilities assigned, excluding those assigned to line inspectors, for annual fire safety inspection increased from 3,446 to 3,911 and the number of facility inspections completed rose from 1,505 to 2,287. Similarly, the total number of facilities assigned for annual hazardous materials inspection increased from 2,020 to 2,356, while the number of completed facility inspections increased from 630 to 1,306. This increase in facility inspections equates to an increase of 87 completed facility inspections per fire safety inspector and an increase of 28 completed facility inspections per hazardous materials inspector.

It should be noted, however, that in spite of these increased inspections from 1988 to 1991, the number of fire safety and hazardous materials inspections completed actually declined from 1990 to 1991. According to Department officials, this decline in completed facility inspections is due in part to a change in the annual inspection cycle from a calendar year to a fiscal year basis beginning July 1, 1991. This change moved the usual emphasis to complete inspections during the last three months of the calendar year to the last three months of the fiscal year. In addition, a fire inspector in the Code Enforcement Division was transferred to the Engineering Division. As a result, in 1991 the Department did not inspect 42 percent of assigned facilities for fire safety and 45 percent of assigned facilities for hazardous materials. Table I shows the results of inspections under each of the Fire Safety and Hazardous Materials Programs.

TABLE I
SUMMARY OF INSPECTION RESULTS

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u> ¹
<u>Fire Safety:</u>				
Total facilities assigned ²	3,446	3,779	3,847	3,911
Number completed by inspectors	1,505	2,145	2,857	2,287
Percent completed	44%	57%	74%	58%
Number not completed	1,941	1,634	990	1,624
Percent not completed	56%	43%	26%	42%
Number of inspectors assigned	9	10	9.75	9
Facilities completed/inspector	167	215	293	254
Average facilities completed per month	125	179	238	191
<u>Hazardous Materials:</u>				
Total facilities assigned	2,020	2,188	2,296	2,356
Number completed by inspectors	630	1,269	1,658	1,306
Percent completed	31%	58%	72%	55%
Number not completed	1,390	919	638	1,050
Percent not completed	69%	42%	28%	45%
Number of inspectors assigned	6.9	10	11	11
Facilities completed/inspector	91	127	151	119
Average facilities completed per month	53	106	138	109

Inspection Fee Recoveries

Department fees and charges have been categorized as 100 percent cost-recovery in the City Manager's Proposed Fees and Charges Reports beginning in 1990-91. Since 1987-88, the Department has attained the required cost recovery for its fee-related programs only in 1988-89. In 1989-90, the Fire Safety Program was required to recover 75 percent of cost, but it recovered only 71 percent. In 1990-91, the Fire Safety Program was required to recover 100 percent, but it recovered only 64 percent of cost. The Hazardous Materials

¹ Only 11 months of data were available for 1991. We annualized these data (except total number of facilities assigned and number of inspectors assigned) for Table I.

² Excludes permitted occupancies inspected by line inspectors. Such occupancies total about 700 annually.

Program has more than recovered its costs during those years. The Department's cost recovery rates on these two programs from 1987-88 through 1990-91 are shown on Table II.

TABLE II
FIRE DEPARTMENT'S FIRE SAFETY AND
HAZARDOUS MATERIALS INSPECTIONS PROGRAM COST RECOVERIES
FROM 1987-88 THROUGH 1990-91

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
<u>Fire Safety:</u>				
Program cost ³	\$1,460,631	\$1,465,047	\$1,551,577	\$1,883,840
Program revenue	734,392	1,106,397	1,102,539	1,209,579
Required recovery rate	50%	75%	75%	100%
Actual recovery rate	50.3%	75.5%	71.1%	64.2%
<u>Hazardous Materials:</u>				
Program cost ⁴	\$898,279	\$1,101,753	\$1,246,676	\$1,317,671
Program revenue	1,290,784	1,165,636	1,290,510	1,473,576
Required recovery rate	100%	100%	100%	100%
Actual recovery rate	143.7%	105.8%	103.5%	111.8%

³ Includes City-wide overhead cost allocation.

⁴ Includes 50 percent of OEM Toxics Program costs in addition to the City-wide overhead cost allocation.

Increased Number Of Inspection Hours From 1988 Through 1991

From 1988 through 1991, the number of facilities requiring annual inspections and the related number of hours needed to inspect these facilities have increased as shown on Table III.

TABLE III
NUMBER OF INSPECTION HOURS NEEDED
FROM 1988 THROUGH 1991

<u>Year</u>	<u>Number of Facilities</u>		<u>Inspection Hours Needed</u>	
	<u>Fire Safety⁵</u>	<u>Hazardous Materials</u>	<u>Fire Safety⁶</u>	<u>Hazardous Materials</u>
1988	3,446	2,020	5,858	4,646
1989	3,779	2,188	6,424	5,032
1990	3,847	2,296	6,540	5,281
1991	3,911	2,356	6,649	5,419

Number Of Inspectors From 1988 Through 1991

Department staff said that 100 percent inspection of all the facilities on the Fire Safety and Hazardous Materials Programs is not possible due to a lack of inspectors. While from 1988 to 1991 the number of facilities needing inspections has increased by 465 for fire safety and 336 for hazardous materials, the actual number of inspectors has remained at 9 for the Fire Safety Program and increased from 6.9 to 11 for the Hazardous Materials Program. The Department said that

⁵ Net of about 700 facilities inspected annually by the line inspectors.

⁶ Calculated using the Department's estimate of 1.7 inspection hours per facility for fire safety and 2.3 inspection hours per facility for hazardous materials.

the increase in the number of inspectors is not enough to cope with the backlog and the continuing increase in the number of regulated facilities requiring inspections.

Inspection Cycles From 1988 Through 1991

For the period 1988 through 1991, the Department has completed inspections at the following levels of performance:

TABLE IV
COMPLETED INSPECTIONS AND INSPECTION CYCLES
FROM 1988 THROUGH 1991

Year	Completed Inspections		Inspection Cycle⁷ (In Months)	
	<u>Fire Safety</u>	<u>Hazardous Materials</u>	<u>Fire Safety</u>	<u>Hazardous Materials</u>
1988	44%	31%	27.3	38.7
1989	57%	58%	21.1	20.7
1990	74%	72%	16.2	16.7
1991	58%	55%	20.7	21.8

Based on the 1991 20.7-month and 21.8-month inspection cycles for fire safety and hazardous materials inspections, respectively, a facility may have a current fire safety and/or hazardous materials storage permit but may not be inspected during the period for which the permit is issued. Table V illustrates this condition using a strict 21-month inspection cycle.

⁷ Annual inspection cycle has been changed from calendar year cycle to fiscal year cycle beginning July 1, 1991.

TABLE V

21-MONTH INSPECTION CYCLE

<u>Month/Year Permit Issued</u>	<u>Period Permit Covered</u>	<u>Month/Year Facility Inspected</u>
January 1990	January 1990-December 1990	January 1990
January 1991	January 1991-December 1991	September 1991
January 1992	January 1992-December 1992	June 1993
January 1993	January 1993-December 1993	March 1995
January 1994	January 1994-December 1994	December 1996

Fire Safety And Hazardous Materials Inspectors' Daily Activities

Table VI shows our analysis of the inspectors' time for the 1990 and 1991 calendar years.

TABLE VI

**SUMMARY OF FIRE SAFETY AND HAZARDOUS MATERIALS
INSPECTORS' TIME USAGE DURING 1990 AND 1991**

<u>Activity Area</u>	1990		1991 ⁸	
<u>FIRE SAFETY</u>	<u>Total</u> <u>Work</u> <u>Hours</u>⁹	<u>Percent of</u> <u>Total Present</u> <u>Hours</u>	<u>Total</u> <u>Work</u> <u>Hours</u>⁹	<u>Percent of</u> <u>Total Present</u> <u>Hours</u>
Direct Services				
Inspection hours for renewable permits ¹⁰	7,371.4	39.5	5,830.4	35.9
Estimated travel time for inspections	1,142.8	6.1	914.8	5.6
Other inspection hours	206.4	1.1	117.6	.7
Inspection-related hours	<u>3,718.1</u>	<u>20.0</u>	<u>3,163.2</u>	<u>19.5</u>
	<u>12,438.7</u>	<u>66.7</u>	<u>10,026.0</u>	<u>61.7</u>
Indirect Services				
Administrative and other hours	<u>6,205.8</u>	<u>33.3</u>	<u>6,212.8</u>	<u>38.3</u>
Total present hours	<u>18,644.5</u>	<u>100</u>	<u>16,238.8</u>	<u>100</u>
Absent hours (including sick leave, vacation leave, disability leave)	<u>2,648.5</u>		<u>1,966.8</u>	
<u>HAZARDOUS MATERIALS</u>				
Direct Services				
Inspection hours for renewable permits ¹¹	2,152.5	11.5	1,867.4	10.0
Estimated travel time for inspections	787.6	4.2	620.0	3.3
Other inspection hours	1,672.5	9.0	1,306.8	7.0
Inspection-related hours	<u>5,799.0</u>	<u>31.1</u>	<u>7,735.2</u>	<u>41.5</u>
	<u>10,411.6</u>	<u>55.8</u>	<u>11,529.4</u>	<u>61.8</u>
Indirect Services				
Administrative and other hours	<u>8,256.2</u>	<u>44.2</u>	<u>7,122.7</u>	<u>38.2</u>
Total present hours	<u>18,667.8</u>	<u>100</u>	<u>18,652.1</u>	<u>100</u>
Absent hours (including sick leave, vacation leave, disability leave)	<u>3,226.5</u>		<u>2,944.8</u>	

⁸ Annualized based upon ten months of available data.

⁹ It should be noted that the above hours are actual hours taken from the Department's Daily Activity Reports. Therefore, these hours do not correspond to the Estimated Inspection Hours Needed as shown in Table III on Page 12.

¹⁰ Includes time spent on hazardous materials inspections. Sometimes a fire safety inspector performs both a fire safety and a hazardous materials inspection in the same facility, in which case the inspector charges the hours spent on both inspections to fire safety inspection only.

¹¹ Also includes time spent on fire safety inspections. Sometimes, a hazardous materials inspector performs both a hazardous materials and a fire safety inspection in the same facility, in which case the inspector charges the hours spent on both inspections to hazardous materials inspection only.

As shown on Table VI, in 1991 fire safety inspectors spent only 36 percent of their time actually doing annual inspections and hazardous materials inspectors spent only 10 percent of their time actually doing annual inspections.

Undetected Hazardous Conditions And Lost Revenues

Our review of the completed Record of Inspection forms for August 1991 revealed that fire safety and hazardous materials inspectors identify hazardous conditions that require correction in about half the facilities they inspect. In 1991, the Department did not inspect or completely inspect 1,624 regulated facilities for fire safety or 1,050 regulated facilities for hazardous materials. As a result, half of these facilities could have life- or property-threatening conditions that go uncorrected for nine or ten months longer than if inspections were done annually. Finally, the Department's inability to inspect regulated facilities on a 12-month cycle has deprived the City's General Fund of about \$1,320,000 in inspection fees from 1988 through 1991, or about \$330,000 per year.

Increasing Inspectors' Time Spent Doing Annual Inspections

To maintain a 12-month inspection cycle using current staffing levels, a fire safety inspector needs to increase his/her time spent inspecting permitted facilities from 36 percent of total present hours to 61 percent of total present hours. This equates to an additional 307 hours a year per inspector, or 180 additional completed facility inspections per year per inspector. Similarly, in order to achieve a 12-month inspection cycle in the Hazardous Materials Inspection Program, each of the 11 inspectors needs to increase his/her time spent inspecting permitted facilities from 10 percent of total present hours to 18 percent

of total present hours. This equates to about 220 additional inspection hours per year per inspector, or 95 additional completed facility inspections per year per inspector.

The Department Should Implement Controls To Assure Complete Reporting Of Inspectors' Billable Hours

Inspectors record their billable hours on the Record of Inspection form, which is the basis of the invoice sent to the customers to bill them for the inspection hours. However, controls are lacking to ensure that all inspector billable hours are submitted for billing.

When an inspection is completed, the supervisor reviews the Record of Inspection, signs it to indicate approval, and submits it to the Accounting Section for billing. The Bureau, however, does not have procedures to check whether all inspections initiated are completed and billed.

So that the City can be assured that all billable hours are billed, the Department should establish written procedures to ensure that inspections initiated are completed and billed.

Computers May Help Improve Inspector Effectiveness And Productivity

A large part of inspectors' non-billable time is spent reviewing specific inspection files and researching fire safety or hazardous materials regulations for assigned inspections. Inspectors prepare for assignments by reviewing relevant codes and prior inspections. Converting codes and inspection histories into a computerized database would allow for computerized text search and checklists.

This capability would allow inspectors to do their research and inspections more effectively and efficiently. Other inspection records and work that can be automated¹² include:

1. The Daily Activity Reports;
2. The Record of Inspection forms;
3. Form letters and boiler plate documents;
4. Building layouts or maps;
5. Inspection or plan review checklists;
6. Minutes of meetings;
7. Assignment schedules;
8. Inspection follow-up lists; and
9. Office and field procedures.

Additionally, if the inspectors could take laptop computers and portable printers with them to the businesses they are inspecting, they would be able to do much of the research and paperwork in the field instead of at the office. This would enable the inspectors to obtain the necessary information faster and more efficiently and, thus, allow them to complete more inspections.

Finally, automating databases and using portable computers would facilitate the training of new inspectors that are frequently rotated through the inspection program. Automated codes, checklists, and inspection histories would be better organized and would provide a wealth of readily accessible information for new inspectors.

¹² One of the inspectors in the Hazardous Materials Inspection Program has computerized many of his work-related records. He used his own computer to do the work, and the Department has recognized the work that he has done.

CONCLUSION

By increasing the time fire safety and hazardous materials inspectors spend on actual inspections, the Fire Department could inspect all assigned facilities on an annual basis and increase General Fund revenues by about \$330,000 per year.

RECOMMENDATIONS

We recommend that the Fire Department:

Recommendation #1:

Analyze fire safety and hazardous materials inspectors' daily activities as a means to identify ways to increase the number of annual inspections. The Department should also consider using other Department staff to do some fire and hazardous materials inspections. Should the Department conclude that inspections cannot be done more efficiently with existing staff, then the Department should request additional inspector positions when it submits its 1992-93 budget proposal to the City Manager. (Priority 2)

Recommendation #2:

Establish written procedures to ascertain that inspections initiated are completed and billed. (Priority 2)

Recommendation #3:

Evaluate the feasibility of creating an inspection regulation and history database and having inspectors use portable computers and printers at the inspection site. (Priority 2)

Recommendations Requiring Budget Action

Of the preceding recommendations, #1 and #3 cannot be implemented absent additional funding. Accordingly, subject to City Council approval of these recommendations, the City Manager should include in the City Manager's Proposed Operating Budget for 1992-93 an amount sufficient to implement Recommendations #1 and #3.

FINDING II

MORE AGGRESSIVE COLLECTION EFFORTS FOR DELINQUENT FIRE DEPARTMENT PERMITS, INSPECTIONS, AND LATE FEES COULD GENERATE AN ADDITIONAL \$163,000

The San Jose Fire Department (Department) has its own accounts receivable system called FIBS (Fire Inspection Billing System) for permits, inspections, and late fees. Our review of the Department's FIBS revealed that

- On the average, the Department bills for inspections more than 60 days after inspections are completed or Hazardous Materials Management Plans (HMMP) are received. In one instance, we noted that the Department billed for an inspection 500 days after the inspection was made;
- FIBS accounts that are over 90 days delinquent have increased from \$91,530 in June 1989 to \$297,261 in June 1991;
- During 1988-89 through 1990-91, the Department cancelled more than \$500,000 in FIBS accounts; and
- The Department could collect an additional \$163,000 of the more than \$325,000 in delinquent FIBS accounts.

Therefore, during 1988-89 through 1990-91 the Department cancelled or failed to collect more than \$825,000 in FIBS accounts. This includes the more than \$500,000 in FIBS accounts the Department has cancelled and the delinquent FIBS accounts totalling over \$325,000. As a result, the City of San Jose's General Fund has not received the permit, inspection, and late fees and interest income to which it is entitled and businesses that have not paid for requisite permits and attendant inspections continue to operate in San Jose. By pursuing delinquent businesses more aggressively, we estimate that the Department could collect an additional \$163,000 for the City's General Fund.

The Department's FIBS

The Department's computerized billing system is called FIBS (Fire Inspection Billing System). The Department operates FIBS through the VAX system maintained at the City's Information Systems Department (ISD). FIBS has a database for all annual renewable permits which is updated for new permit information. An Account Clerk II is responsible for updating the database and inputting billing information, while an Accounting Supervisor randomly reviews input data for accuracy.

The Department bills the inspected businesses monthly. Every month, the Department sends out invoices for inspections that have been completed. At the beginning of each quarter, the Department combines the regular monthly billing for completed inspections with the quarterly billing for annual renewable permits. When the Department requests it to do so, ISD prints the invoices for permits, inspections, and/or late fees on data mailers, and the Department mails them to the businesses.

On The Average, The Department Bills Businesses More Than 60 Days After Inspections Are Made

In addition to the quarterly billing for annual renewable fire safety and/or hazardous materials storage permits, the Department also bills the permit holders for inspections of their businesses.

Our review revealed that at times some businesses may not be inspected during the period for which the permits were issued. Furthermore, we reviewed 31 of 340 FIBS invoices issued in August 1991 and found that when inspections are made, they are, on the average, billed more than 60 days after inspections are

completed or HMMPs are reviewed and accepted, whichever is later. Out of the 31 invoices we tested, we noted one inspection that the Department billed more than 500 days after the Department completed the final inspection. According to the Department, the billing was delayed because the inspector did not receive the HMMP on time.

Inspector's Billable Hours Are Billed Only After the Inspection Is Completed

In some installations, the initial hazardous materials inspection may take more than a year to complete. The inspectors keep track of the billable hours on the Record of Inspection form, which has space for as many as five visits. Several forms may be needed before a project is completed, especially if the inspector notes multiple violations that the business needs to correct and the inspector needs to re-inspect.

Although an inspection assignment may take several months to complete and may accumulate numerous billable inspection hours, current Fire Prevention Bureau (Bureau) procedures require the billing of inspection hours only upon completion of the assignment. Thus, the Bureau may not bill for some inspection hours until several months have elapsed. The Bureau should address this problem by requiring that inspectors submit the Record of Inspection form every three months for those inspections that take longer than three months. By doing so, the Bureau would speed up its billings and the City would collect revenues earlier.

**FIBS Accounts Over 90 Days Delinquent Have Increased
From \$91,530 In June 1989 To \$297,261 In June 1991**

Our review of the FIBS invoices revealed that the value of unpaid FIBS accounts receivable is significant and growing. Neither the Finance Department nor the Fire Department has made any aggressive attempt to collect these overdue accounts. Both departments claim that they do not have enough staff to follow up on delinquent accounts. As a result, delinquent permits and inspections accounts receivable, including late fees, have increased significantly. From June 1989 to June 1991, the average cumulative FIBS accounts receivable more than 30 days delinquent have risen to more than \$257,000 a month. Accounts more than 90 days delinquent alone have jumped from \$91,530 in June 1989 to \$297,261 in June 1991--a 225 percent increase.

**During 1988-89 Through 1990-91, The Department
Cancelled More Than \$500,000 In FIBS Accounts**

For various reasons, the Department has cancelled more than \$500,000 in FIBS accounts receivable during 1988-89 through 1990-91. The two basic reasons the Department cancelled FIBS invoices before June 1991 were:

1. The City prebilled businesses for permit fees and the post office returned the invoice because the business no longer existed; and
2. The City billed for permit and/or inspection fees and the business received the invoice but vacated the premises without paying. In these instances, the City could not contact the owner.

We reviewed the Department's Accounts Receivable Voucher (ARV) file for 1990-91. During this period, the Department cancelled 1,300 invoices totaling \$174,291 for 502 businesses. Table VII shows a summary of these cancelled invoices.

TABLE VII
SUMMARY OF FIBS INVOICES CANCELLED
DURING FISCAL YEAR 1990-91

<u>Quarter</u>	<u>Permit Fees</u>	<u>Inspection Fees</u>	<u>Late Fees</u>	<u>Total</u>
1st	\$26,324	\$1,860	\$19,534	\$47,718
2nd	22,292	3,262	19,299	44,853
3rd	23,833	1,218	35,758	60,809
4th	<u>14,306</u>	<u>1,250</u>	<u>5,355</u>	<u>20,911</u>
TOTALS	<u>\$86,755</u>	<u>\$7,590</u>	<u>\$79,946</u>	<u>\$174,291</u>
PERCENTAGE	50%	4%	46%	100%

Of the 502 businesses, we reviewed 30 whose invoices were cancelled because they allegedly no longer existed. We checked to see if they were still listed in the telephone directory, had current business licenses, or were still operating at their old addresses or in new locations. Of the 30 businesses we tested,

- Two were still listed in the telephone book, but the telephone number of one was not working and the telephone number of the other had been changed to an area code outside of California.
- Two were in the telephone book, were still operating, and had current business licenses. One was still at its old address under new ownership, while the other had moved to an unincorporated county area.
- The remaining 26 were no longer listed in the telephone book.

Beginning in June 1991, the Department can write off uncollectible accounts receivable. Under current practice, an Account Clerk II in the Department writes and/or telephones a delinquent business. If no response is received and the business cannot be contacted and is determined to be no longer in business, the Account Clerk II prepares an ARV to write off the account receivable. The Department's Accounting Manager or Accounting Supervisor reviews and approves the ARV which is then inputted into the VAX through FIBS. Finance/Accounting receives the original copy of the ARV and the related supporting documentation, and an interface report is created automatically to update the Financial Management System (FMS) general ledger accounts receivable balance. Our review revealed that the Finance Department is not involved in the review or approval of the ARV that the Fire Department prepares when it cancels or writes off invoices. The Finance Department write-off procedures cover FMS invoices only and do not address write-offs of non-FMS invoices, such as FIBS-generated VAX invoices. The Finance Department is looking into the possibility of reviewing and approving cancellations and/or write-offs of non-FMS invoices to provide more control over the Fire Department write-off process.

**By Pursuing Delinquent Businesses More Aggressively,
The Department Could Collect An Additional \$163,000
Of The \$325,000 In Delinquent FIBS Accounts**

From June 1989 to June 1991, the Department's delinquent FIBS accounts receivable increased from \$181,679 to \$325,402. These delinquent accounts, combined with the more than \$500,000 in cancelled FIBS accounts, total more than \$825,000 in FIBS accounts the Department cancelled or failed to collect

during 1988-89 through 1990-91. Table VIII shows the delinquent accounts receivable at June 30, 1989, 1990, and 1991.

TABLE VIII
FIRE DEPARTMENT'S DELINQUENT FIBS ACCOUNTS
AT JUNE 30, 1989, 1990, AND 1991

<u>June 30</u>	<u>30-60 Days</u>	<u>60-90 Days</u>	<u>Over 90 Days</u>	<u>Total</u>
1989	\$29,334	\$60,815	\$91,530	\$181,679
1990	\$10,374	\$8,639	\$203,935	\$222,948
1991	\$11,212	\$16,929	\$297,261	\$325,402

Between June and December 1989, the Fire Department, Finance Department, and ISD attempted unsuccessfully to find a workable solution to the problem of collecting delinquent FIBS accounts receivable. In early July 1991, we discussed the problem of delinquent FIBS accounts receivable with Fire Department staff. In August 1991, the Department assigned two captains (supervisors of the fire safety inspectors) to contact delinquent businesses. According to Department staff, this approach proved to be effective in resolving some delinquent accounts. However, the captains have been subsequently relieved of this duty and assigned to conduct inspections.

The collection results of the two captains showed that the Department could collect a significant portion of the delinquent accounts. For example, of 30 delinquent businesses that one captain contacted, 20 paid their accounts. If the City implements similar types of collection effort for the remaining delinquent accounts, we estimate that the City could collect about 50 percent, or \$163,000, of the accounts delinquent more than 30 days.

Recently, the Finance Department and the Fire Department have started a test program to improve the collection of delinquent accounts. According to the Fire Department staff, 100 old accounts City-wide will be given to a private agency for collection. Included in these 100 accounts are some delinquent FIBS accounts receivable with the highest balances.

The Inspectors Can Remind Businesses Of Any Delinquent Bills When They Re-inspect Them

Our audit disclosed that the inspectors have not been regularly or consistently informed of the businesses that are delinquent in paying inspection or permit fees. If the inspectors had this information, they could remind businesses of any delinquent bills when conducting re-inspections. Several inspectors told us that this type of personal contact with businesses is an effective means of securing payment. In our opinion, the Bureau should provide inspectors with a list of delinquent businesses so that the inspectors can remind the owners of the businesses of any unpaid bills during re-inspections.

CONCLUSION

By improving the effectiveness of collecting its delinquent accounts receivable, we estimate that the Fire Department could collect an additional \$163,000 for the City's General Fund. To collect the delinquent accounts, the Department needs to pursue delinquent businesses more aggressively.

RECOMMENDATIONS

We recommend that the Fire Department:

Recommendation #4:

Require inspectors to submit the Record of Inspection form every three months for those inspections that take longer than three months. (Priority 2)

Recommendation #5:

Either assign Fire Department personnel to contact delinquent businesses, or turn over delinquent accounts to the Finance Department for referral to private collection agencies. (Priority 2)

Recommendation #6:

Provide a list of delinquent businesses to inspectors so that they can remind the owners of the businesses of any unpaid bills during re-inspections. (Priority 2)

FINDING III

THE FIRE DEPARTMENT'S MANUAL BILLING SYSTEM NEEDS ADDITIONAL CONTROLS TO PROTECT IT FROM ERRORS, OMISSIONS, AND DEFALCATIONS

The San Jose Fire Department (Department) uses a manual billing system for non-routine inspections and services. Our review of these manual billings revealed that

- The Department's manual billings exceed \$250,000 per year;
- The Department does not have an accounts receivable system for these manual billings; and
- The Department's controls over the manual billings are inadequate.

As a result, the Department's annual \$250,000 in manual billings are susceptible to errors, omissions, and defalcations.

The Department's Manual Billings

The Department manually bills for fees related to the inspection of facilities for which installation, removal and alteration permits are issued. This manual billing is also used for late fees and other non-routine transactions that do not need follow-up or any permit renewal. Specifically, manual invoices are prepared for the following items:

1. Fire protection system inspection

2. Inspection for hazardous materials storage tanks:
 - a. Tank installation
 - b. Tank removal
 - c. Tank repair
 - d. Piping installation
 - e. Piping repair
3. Plan review
4. Consultation services

Appendix F describes the process for manual billing and collection. In preparing a manual invoice, the Department uses an invoice form that is not pre-numbered. An inspector fills out the invoice form with billing information while the Accounting Section of the Department computes the amount due. The Department retains copies of the invoices for collection follow-up but does not keep any other record of the unpaid invoices, such as an accounts receivable listing or individual ledgers.

Manual Billings Exceed \$250,000 Per Year

Our review of the Department's August 1991 invoice files revealed that the Department prepares about 120 manual invoices monthly and that the Department's manual billings exceed \$250,000 per year. Further, we determined that as of September 25, 1991, the delinquent manual invoices totaled almost \$85,000 and that more than 90 percent of these accounts were more than 90 days delinquent.

No Accounts Receivable For Manual Billings

The Department does not maintain any basic accounting records for its manual invoices. The Department does not keep a detailed record of the invoices issued or a detailed record of payments received. Furthermore, the Department has no record of how many invoices are unpaid at any given time. As a result, the Department did not know that as of September 25, 1991, there were 533 unpaid manual invoices totaling \$112,263 or that at least two of these invoices were more than 1,000 days delinquent and 48 invoices were more than 900 days delinquent. The age status of the Department's manual accounts receivable as of September 25, 1991, was as follows:

TABLE IX

AGE STATUS OF THE FIRE DEPARTMENT'S MANUAL ACCOUNTS RECEIVABLE AS OF SEPTEMBER 25, 1991

<u>Age</u>	<u>Amount</u>	<u>Percent</u>
Current	\$27,369	24%
30 to 60 days	5,242	5
61 to 90 days	2,969	3
Over 90 days	<u>76,683</u>	<u>68</u>
TOTALS	<u>\$112,263</u>	<u>100%</u>

Controls And Segregation Of Responsibilities Over Manual Billings Are Inadequate

Our review of the manual billing system revealed that the Department needs to

- Strengthen controls to establish proper accountability for manual invoices and

- Maintain adequate segregation of responsibilities for accounting, billing, and processing of payments.

The Department uses a manual invoice form (not pre-numbered) to bill businesses for non-routine inspections, plan reviews, and other services. The Department keeps only one copy of the invoice for collection follow-up. No other record of the billing is maintained. As a result, the Department does not have readily available information to monitor its outstanding manual invoices or to ensure proper accounting for all invoices. Furthermore, the Department's procedures permit the Accounts Receivable Clerk and the Billing Clerk, who have access to invoice files, to be involved in processing payments on manual invoices. This violates the most basic separation of duties principle and exposes manual invoice revenue to errors, omissions, and defalcations.

CONCLUSION

The Fire Department needs to improve its internal controls over its \$250,000-a-year manual billing system. Such improvements are needed to establish proper invoice accountability and to reduce or eliminate the risk that these revenues may be misrecorded or misappropriated.

RECOMMENDATION

We recommend that the Fire Department:

Recommendation #7:

Establish additional controls over its manual billings by using pre-numbered invoices, establishing an accounts receivable system, and separating the accounting, billing, and cashiering functions for these revenues. Should the Department conclude that the additional controls cannot be done with existing staff, then the Department should request additional clerical positions when it submits its 1992-93 budget proposal to the City Manager. (Priority 2)

Recommendation Requiring Budget Action

The preceding Recommendation #7 cannot be implemented absent additional funding. Accordingly, subject to City Council approval of these recommendations, the City Manager should include in the City Manager's Proposed Operating Budget for 1992-93 an amount sufficient to implement Recommendation #7.

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